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Results of the AICPA Estate and Gift Tax Survey: An Analysis of Member Views Toward the Estate and Gift Tax System and Its Alternatives

American Institute of Certified Public Accountants. Tax Division. Trust, Estate, and Gift Tax Technical Resource Panel. Estate Tax Repeal Task Force

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**Results of the
AICPA Estate and Gift Tax Survey —**

An Analysis of Member Views Toward the
Estate and Gift Tax System and Its Alternatives

Prepared by:

The Estate Tax Repeal Task Force
of the
Trust, Estate, and Gift Tax Technical Resource Panel
of the
Tax Division

November 2000

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SURVEY METHODOLOGY

The Estate Tax Repeal Task Force of the AICPA Tax Division's Estate and Gift Tax Technical Resource Panel developed a survey to gather members' opinions about the transfer tax system. The survey website was provided in an e-mail message on May 19, 2000. As of that date, the AICPA had 23,007 Tax Division members, of whom 13,187 had identified themselves as having an interest in estate and gift tax issues, and of those 4,973 had e-mail addresses. Of those that had e-mail addresses, 3,826 were in public accounting and were, therefore, chosen for the survey e-mail message.

The survey e-mail included a link to the AICPA web site to permit survey completion online. A total of 806 individuals completed the survey, resulting in a 21 percent response rate. Of the 806 people responding, 752 provide estate planning and compliance services to clients and were able to provide their opinions on the current system and preferences for various alternatives.

With a sample of this size, the results have a statistical precision of plus or minus 4 percentage points with 95 percent certainty. There are several other possible sources of error in the survey including non-response bias and problems with question wording and question order. It is impossible to quantify the errors that may result from these factors.

Special acknowledgement is given to members of the Estate Tax Repeal Task Force who developed this survey:

Roby B. Sawyers, *Task Force Chair*
Byrle M. Abbin, *Task Force Vice-Chair*
John H. Gardner, *TRP Immediate Past Chair*
Barbara A. Bond
Robert M. Caplan
Evelyn M. Capassakis, *TRP Chair*
Ruchika Garga
Brian T. Whitlock
Eileen R. Sherr, *Technical Manager*

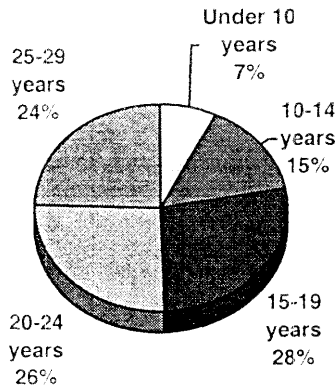
The involvement by the task force members was a volunteer effort. Special acknowledgment is given to: Jimmy Wilkins of North Carolina State University, Elly Filippi of PricewaterhouseCoopers LLP, and Stephen Goldfarb of the AICPA Marketing Services Department for their assistance in developing this report.

RESPONDENT DEMOGRAPHICS

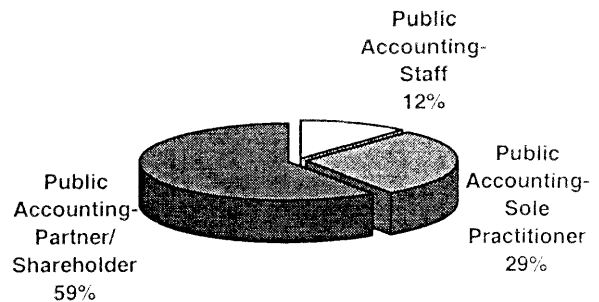
Respondents had an average of 22 years of experience as CPAs. Approximately 59 percent of respondents classified themselves as partners or shareholders in their firms, while another 29 percent were sole practitioners. Most (84 percent) of respondents worked for a local firm, 10 percent were employed by a regional firm, and 5 percent were employed by a national firm. Over one-half worked in the Southeast and Southwest.

Almost all of the respondents (93 percent) provided estate planning and compliance services to clients. A majority (65 percent) of respondents had between 100 and 500 individual tax clients in 1999, with 15 percent having over 500 clients. Additionally, 29 percent of the individual tax clients of the respondents required some sort of wealth transfer (estate and gift tax) planning in 1999.

Years as a CPA
(N=806)

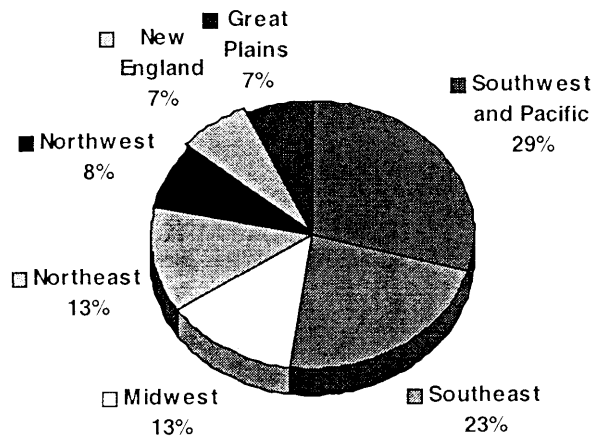


Area of Employment
(N=806)

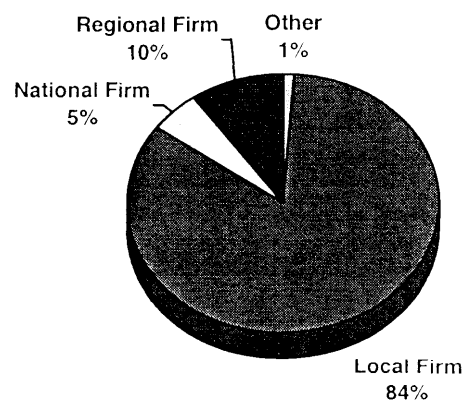


RESPONDENT DEMOGRAPHICS (Continued)

Geographic Region in Which Survey Respondents Practice
(N= 806)

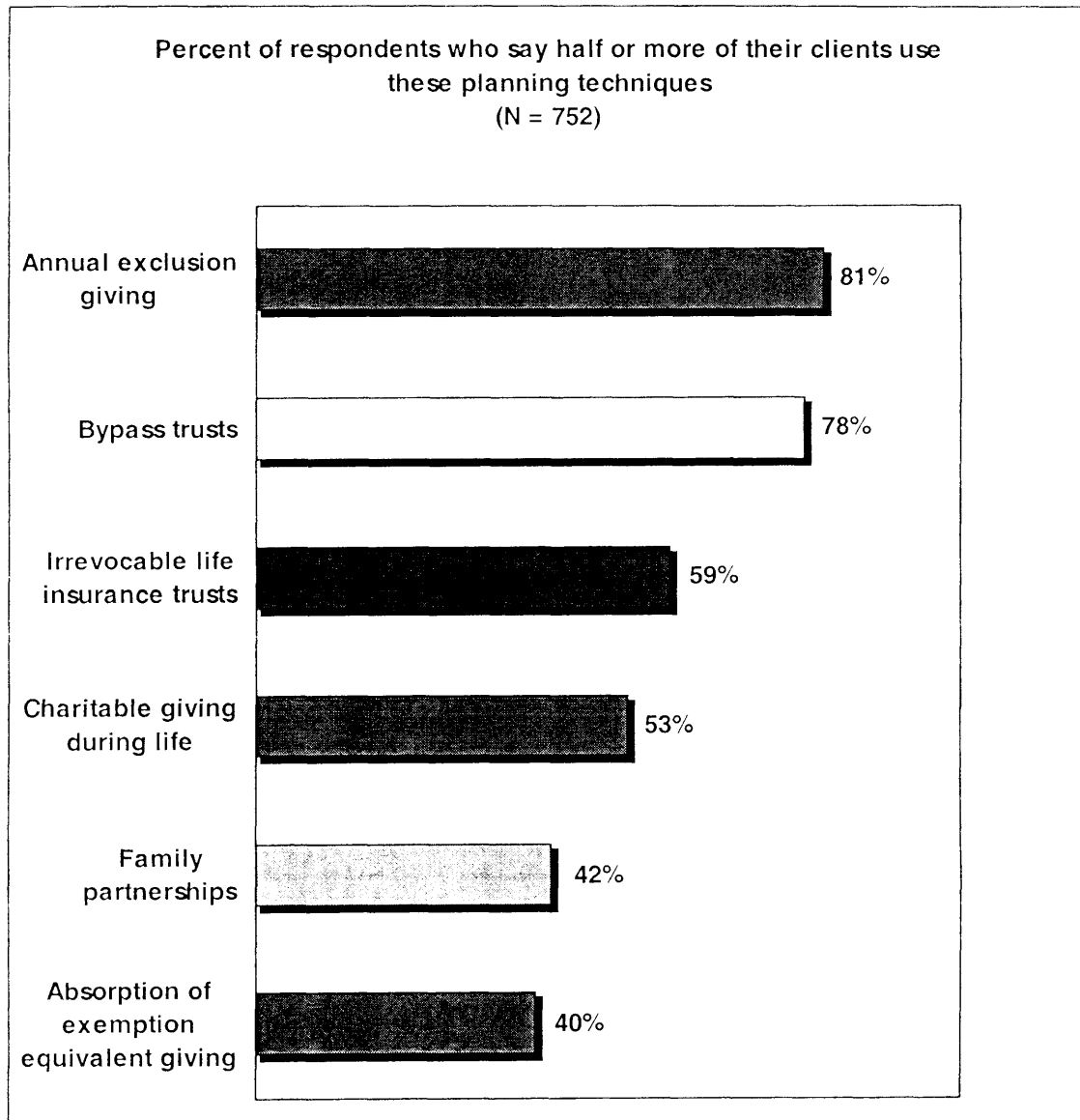


Type of Firm
(N=806)



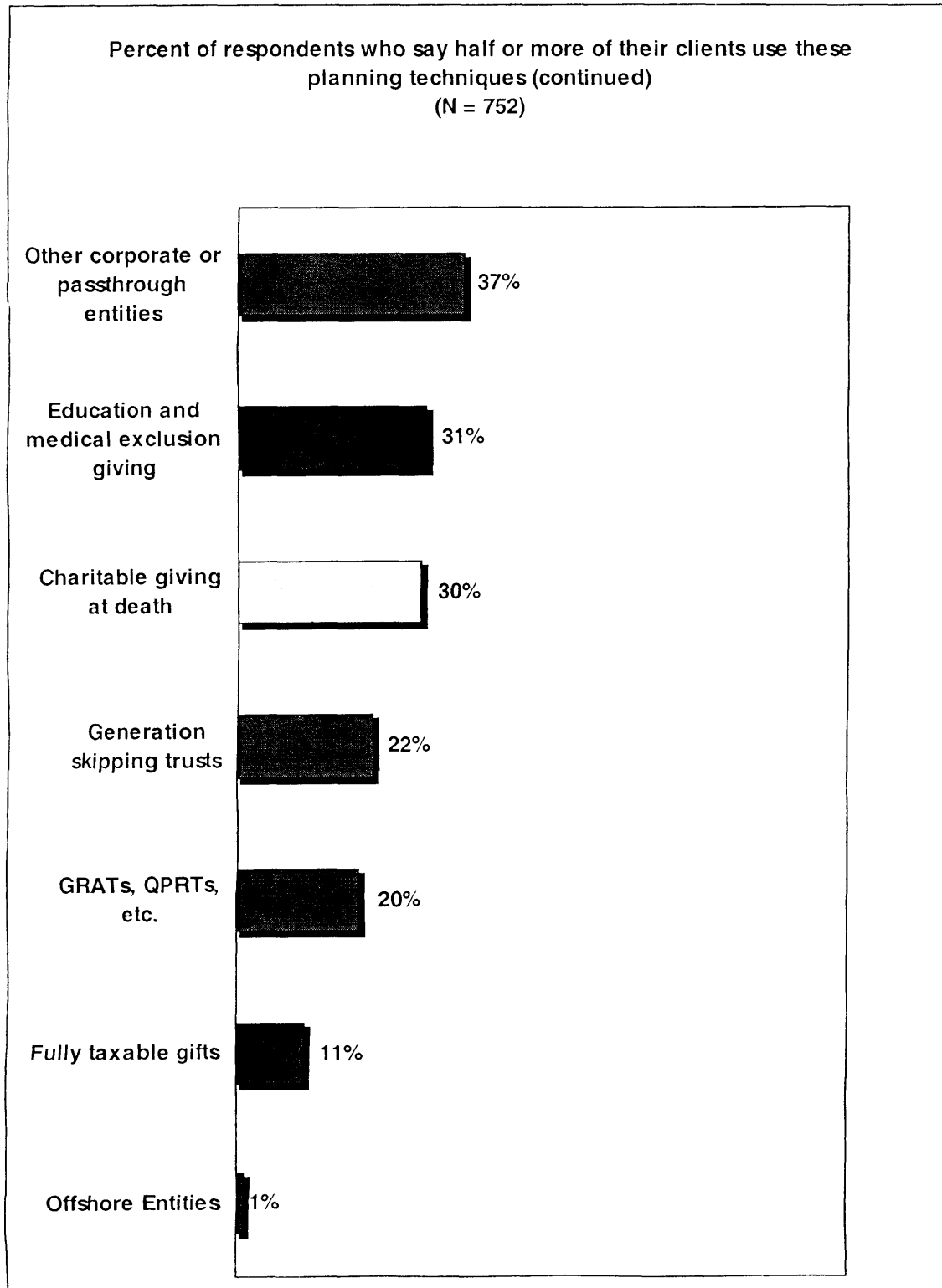
PLANNING TECHNIQUES CURRENTLY UTILIZED

Annual exclusion giving and bypass trusts were the most frequently used planning techniques mentioned by respondents.



PLANNING TECHNIQUES CURRENTLY UTILIZED (continued)

The use of fully taxable gifts and offshore entities were the least frequently used planning techniques.

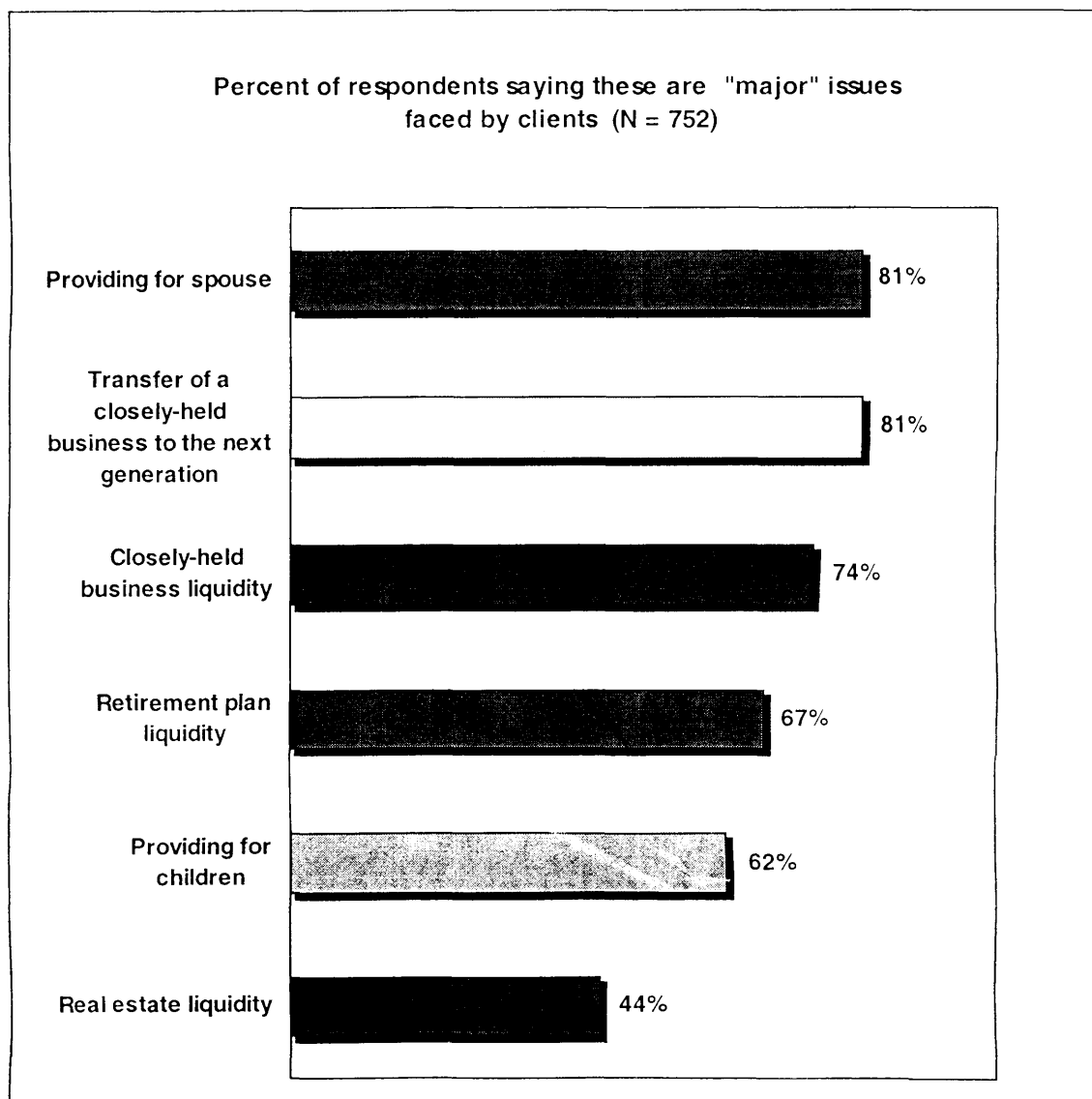


MAJOR ISSUES FACED BY CLIENTS

The transfer of a closely held business to the next generation was ranked by 81 percent of respondents as being a major transfer tax and succession issue faced by their clients.

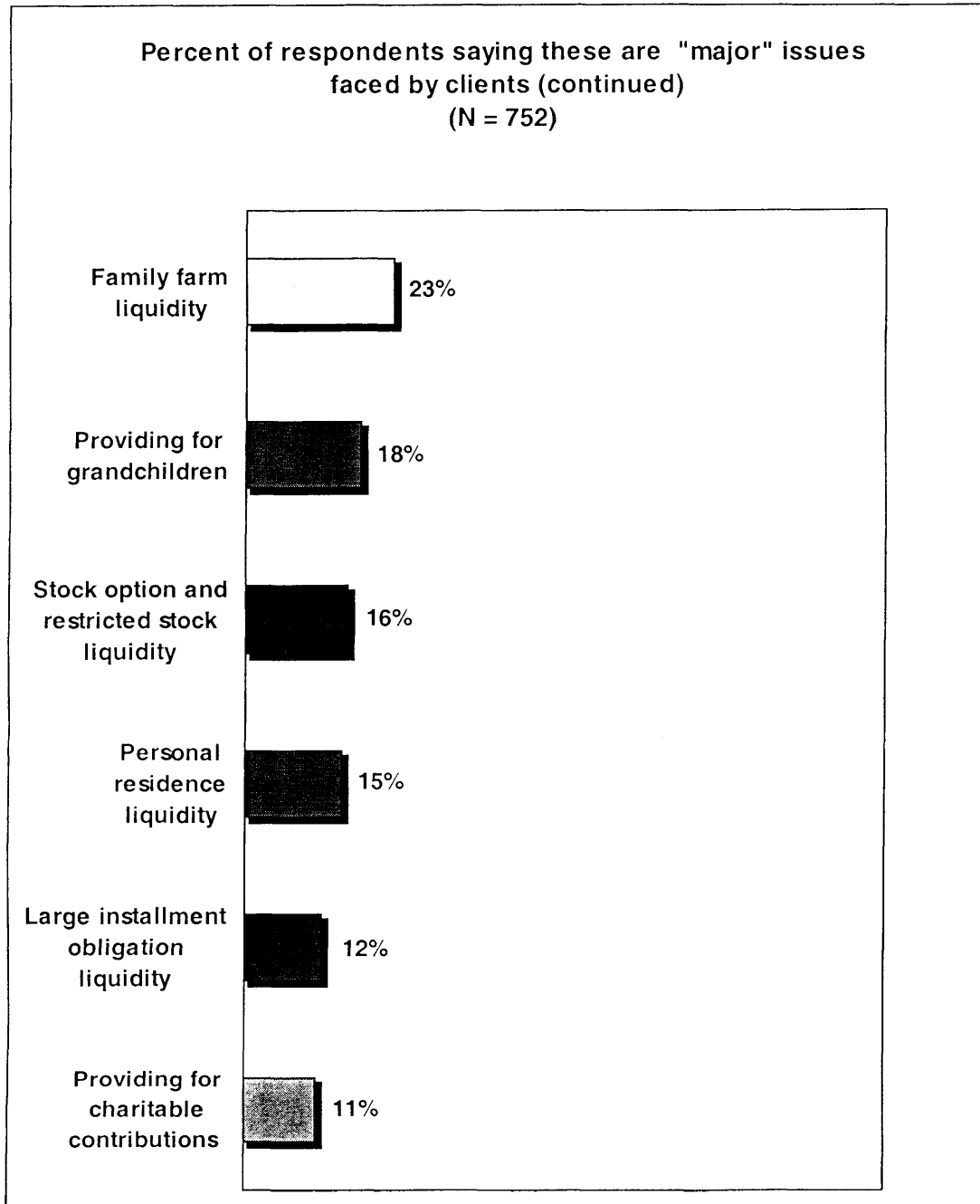
The only issue that was categorized as "major" as frequently as transferring a business was providing for a spouse (81 percent). Providing for children was a major issue facing clients for 62 percent of respondents. Liquidity issues related to closely held business interests and retirement plans were the only other "major" issues noted by a majority of respondents.

Related to closely held business and farm liquidity, almost 13 percent of respondents said that one or more of their clients were forced to sell a closely held business or family farm to pay estate tax in 1999. Almost 45 percent indicated that one or more additional clients would have had to sell a business absent planning or counseling.



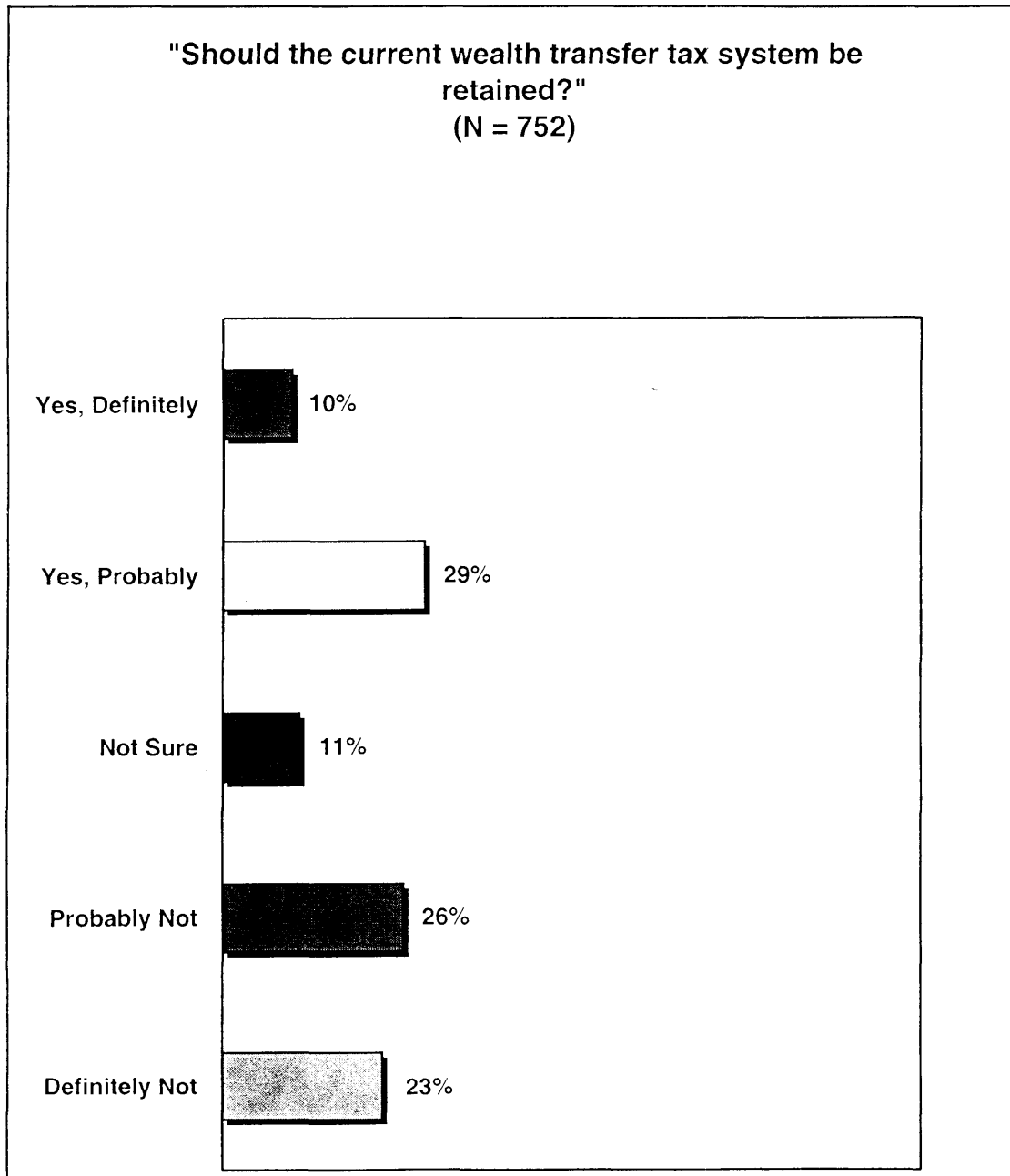
MAJOR ISSUES FACED BY CLIENTS (continued)

Providing for charitable contributions and large installment obligation liquidity were considered major issues faced by clients for only 11 percent and 12 percent of respondents.



ATTITUDES TOWARD RETAINING THE CURRENT SYSTEM

Respondents had mixed views on the issue of whether the current wealth transfer tax system should be retained. While 49 percent said the current transfer tax system probably or definitely should not be retained, 39 percent said the current system probably or definitely should be retained.



ADVANTAGES AND DISADVANTAGES OF THE CURRENT SYSTEM

As shown in the table below, respondents stated that the **advantages** of the current system are: it redistributes wealth; it forces clients to consider succession planning issues; it encourages giving to charities; it provides a revenue source to the federal government; it provides a step-up in basis for assets passing at death; and it is a lucrative source of revenue for CPAs and attorneys.

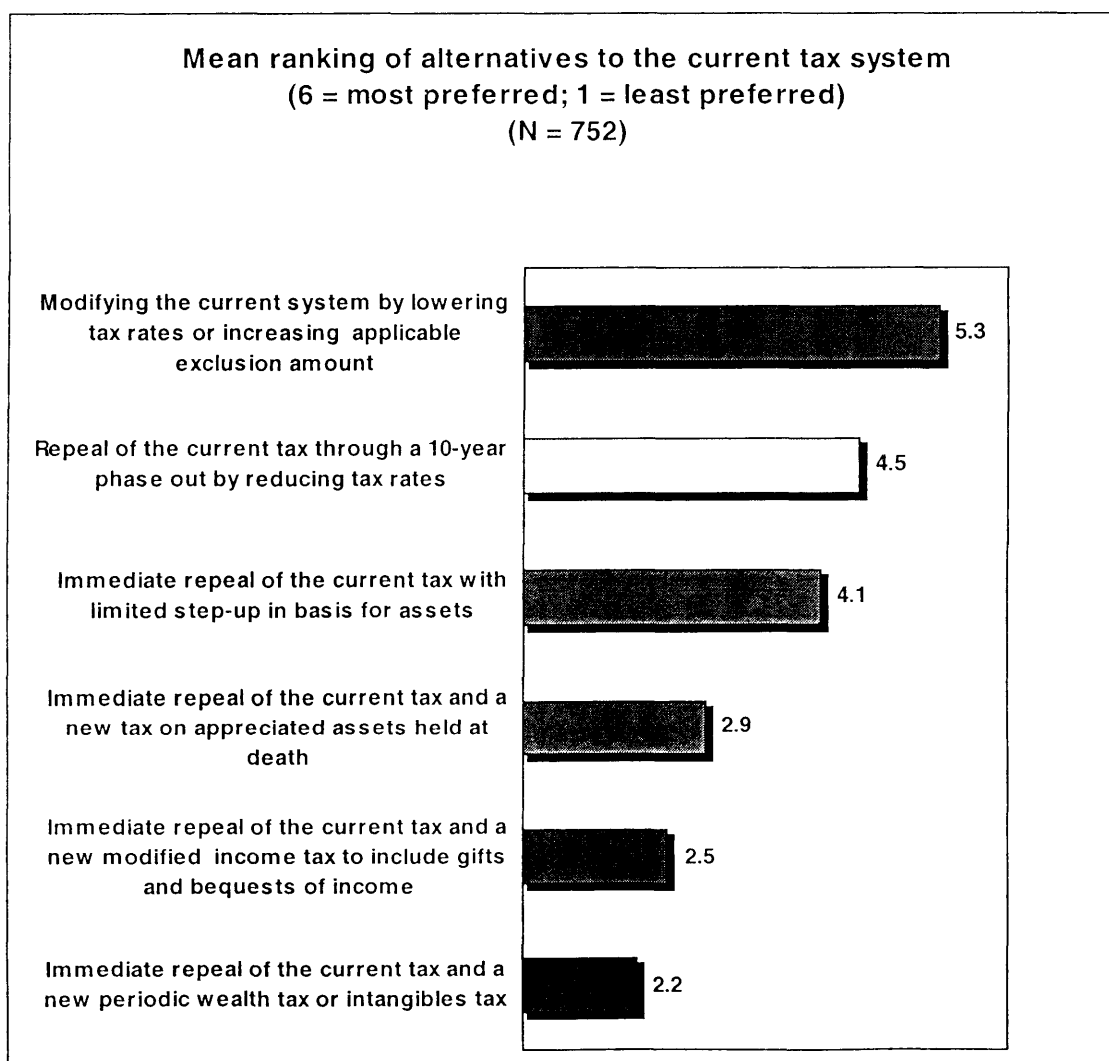
According to respondents, **disadvantages** of the current system include: its complexity; its high marginal tax rates and low exemption amount, the liquidity problems caused by the tax, the cost of planning and compliance, and the feeling that the tax penalizes even moderately wealthy taxpayers and results in double taxation.

“WHAT ARE THE ADVANTAGES OF THE CURRENT SYSTEM?”	“WHAT ARE THE DISADVANTAGES OF THE CURRENT SYSTEM?”
<ul style="list-style-type: none">• Redistributes wealth• Forces succession planning• Encourages giving to charities• Provides step up in basis of assets• Provides a revenue source for the federal government• Is lucrative for CPAs and Attorneys	<ul style="list-style-type: none">• Is too complex• Contains exclusions/exemptions that are too low• Demands costly planning• Penalizes wealthy and even moderately wealthy taxpayers• Is a mechanism for double taxation• Causes liquidity problems• Contains “confiscatory” tax rates• Is “a royal scam, grossly unfair, extortionate, destructive, unAmerican, etc.”

PREFERENCES FOR ALTERNATIVES TO THE CURRENT SYSTEM

We asked respondents to rank six **alternatives** to the current system. The most preferred alternative was: "Modifying the current system by lowering tax rates or increasing the applicable exclusion amount," followed by "Repeal of the estate, gift and GST tax through a 10-year phase out accomplished by reducing tax rates." The latter option was preferred by practitioners who felt strongly that the current system should be abolished. Immediate repeal of the current transfer tax with a limited step-up in basis was the third most preferred alternative.

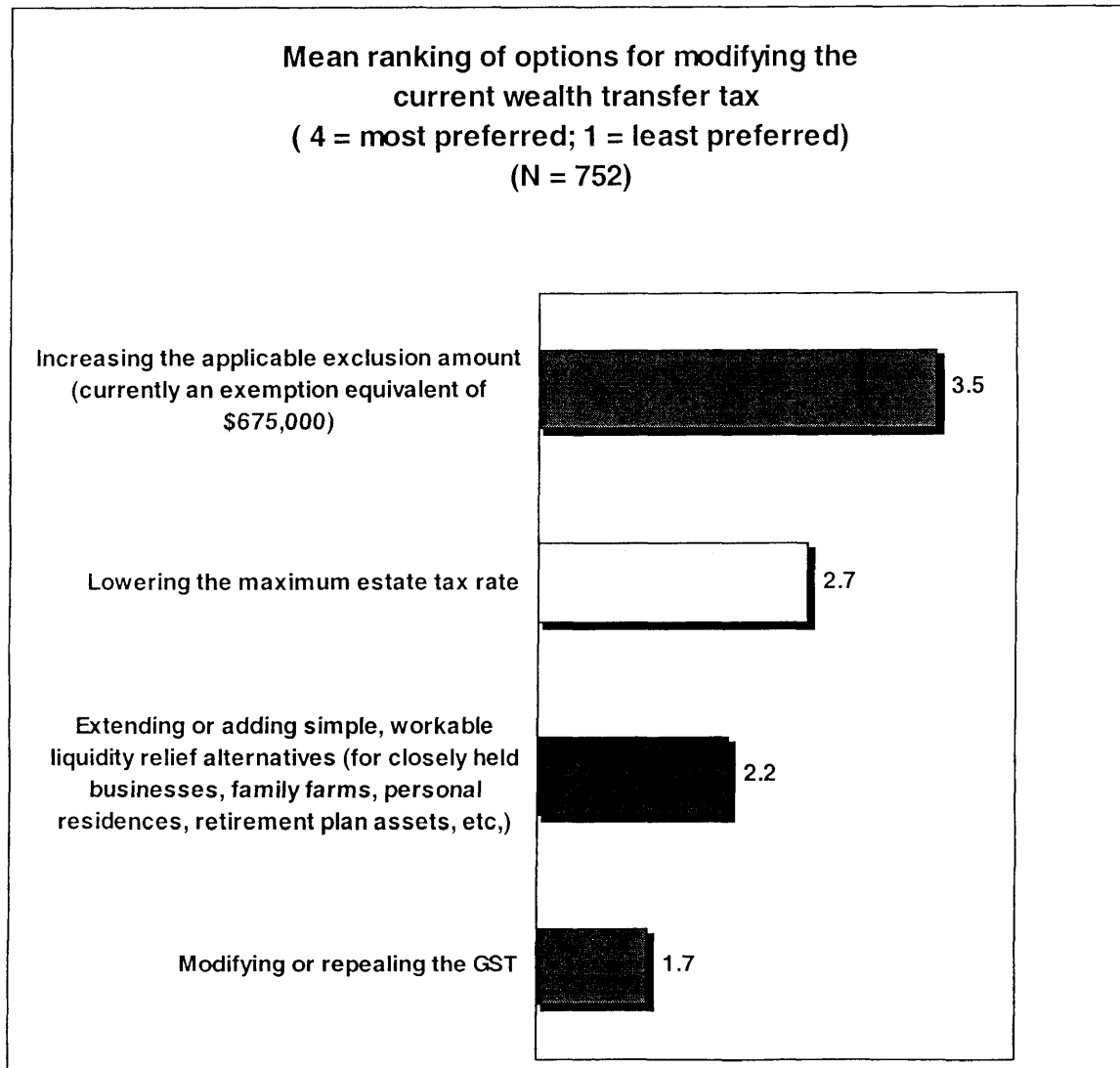
The least preferred alternatives were: "Immediate repeal of the current estate, gift and GST tax, with a new tax on appreciated assets held at death," "Immediate repeal of the current estate, gift and GST tax, with a modified comprehensive income tax that would include gifts and bequests in income," and "Immediate repeal of the current estate, gift and GST tax, with a new periodic wealth tax or intangibles tax."



PREFERENCES FOR MODIFYING THE CURRENT SYSTEM

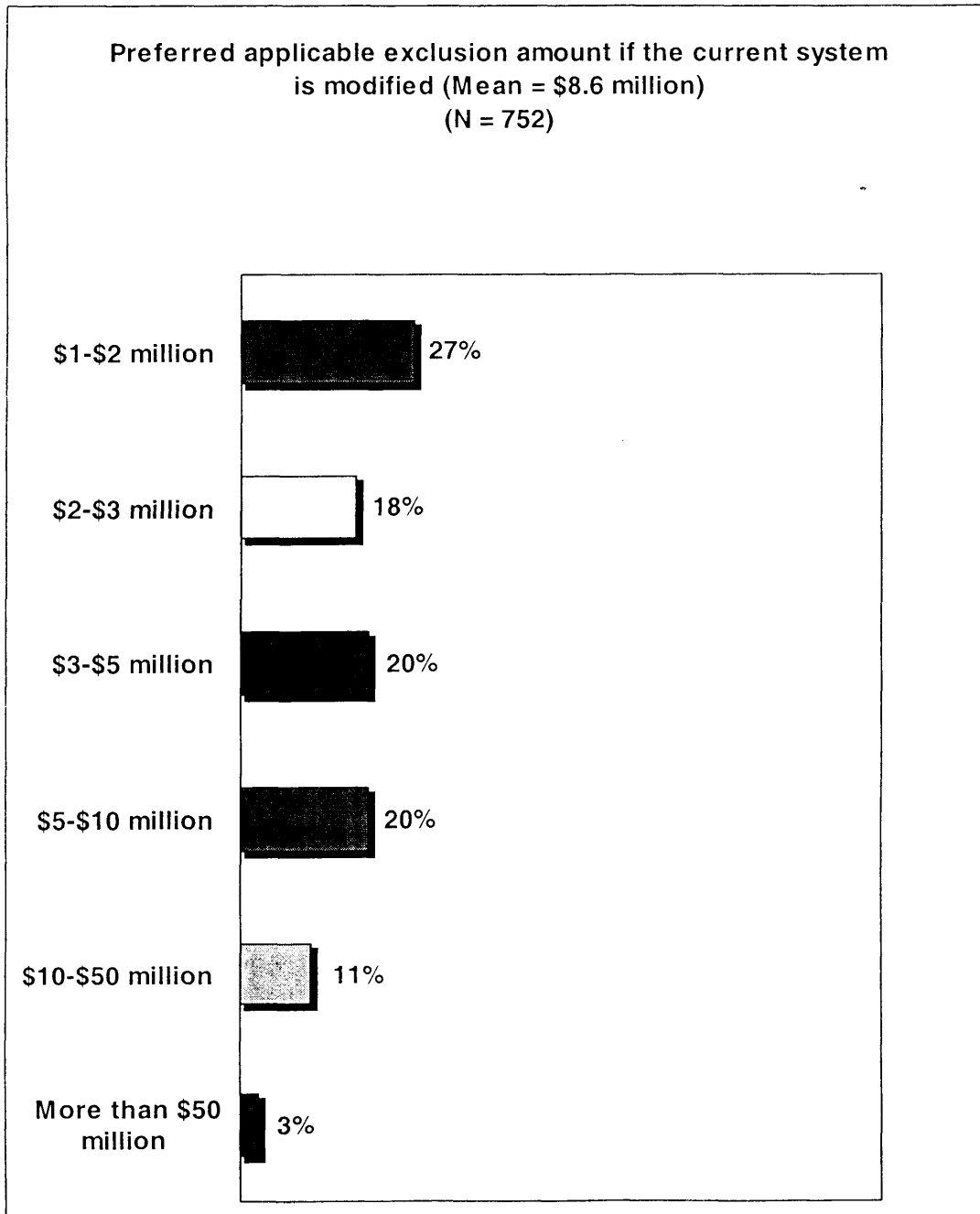
The survey asked practitioners to rank various options for **modifying** the current system. "Increasing the applicable exclusion amount..." was ranked highest, followed by "lowering the estate tax rate...", and "extending/adding workable liquidity relief alternatives...."

Although GST modification/repeal was ranked lowest relative to the other three options, GST exemption allocation traps and other complexities persist and remain a significant concern to practitioners (lawyers and bankers as well as CPAs) and taxpayers. Major GST exemption allocation modifications and related relief measures have been jointly advocated by all of these practitioner groups and were included in bills passed by Congress in 1999 and 2000, but vetoed by the President.



PREFERRED APPLICABLE EXCLUSION AMOUNT

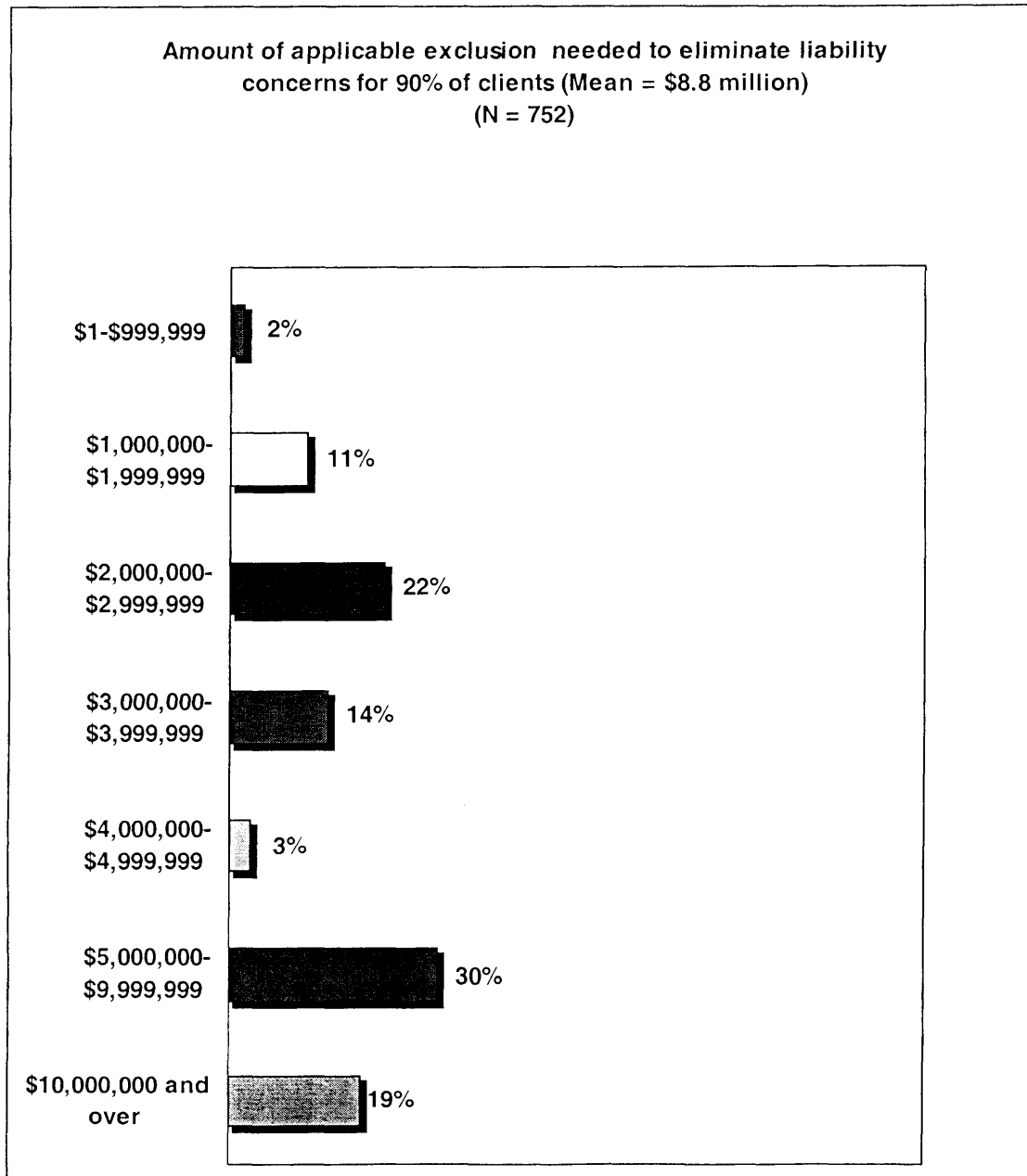
Survey respondents were asked what the applicable exclusion amount should be if the current transfer tax system is modified (but not overhauled). While responses varied greatly, the mean response was \$8.6 million and the median was \$3.5 million. Also, 85 percent of respondents thought that the applicable exclusion amount should be \$10 million or less.



APPLICABLE EXCLUSION

Survey respondents were asked how large the applicable exclusion amount would need to be today to eliminate estate tax liability concerns for 90 percent of their clients.

While responses varied greatly, the mean was \$8.8 million and the median was \$4.0 million.

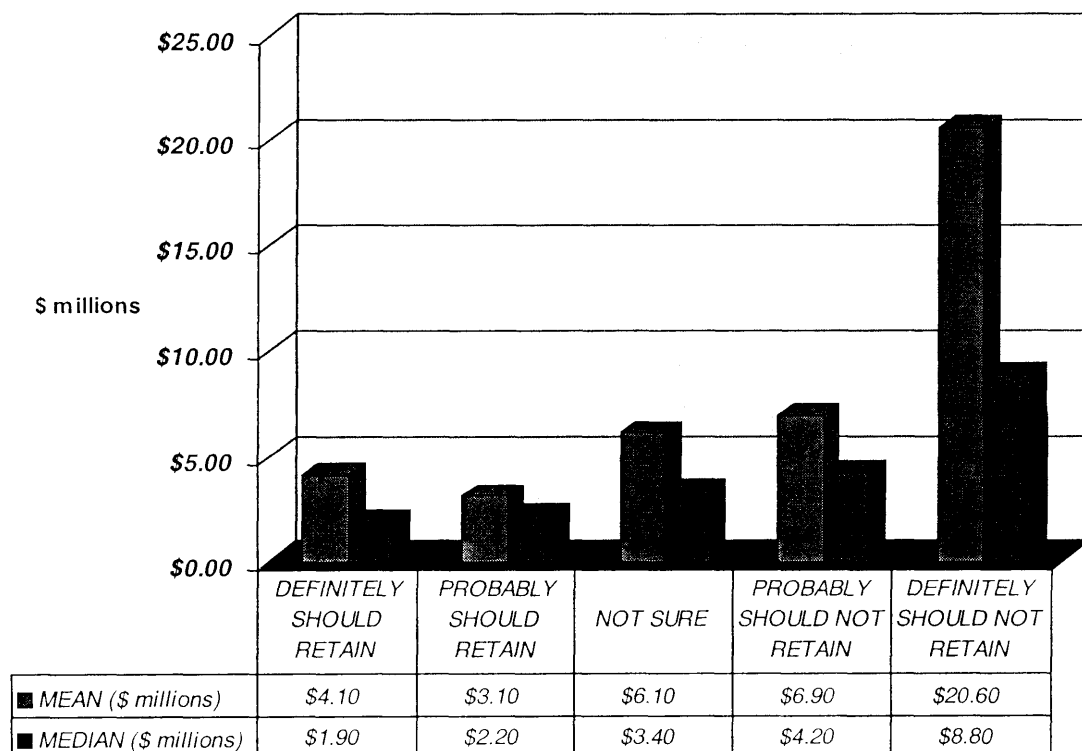


APPLICABLE EXCLUSION AMOUNTS BY PREFERENCES FOR RETAINING THE CURRENT SYSTEM

As would be expected, respondents who thought the current transfer tax system should be retained preferred a lower applicable exclusion amount than those who thought that the current transfer tax system should not be retained.

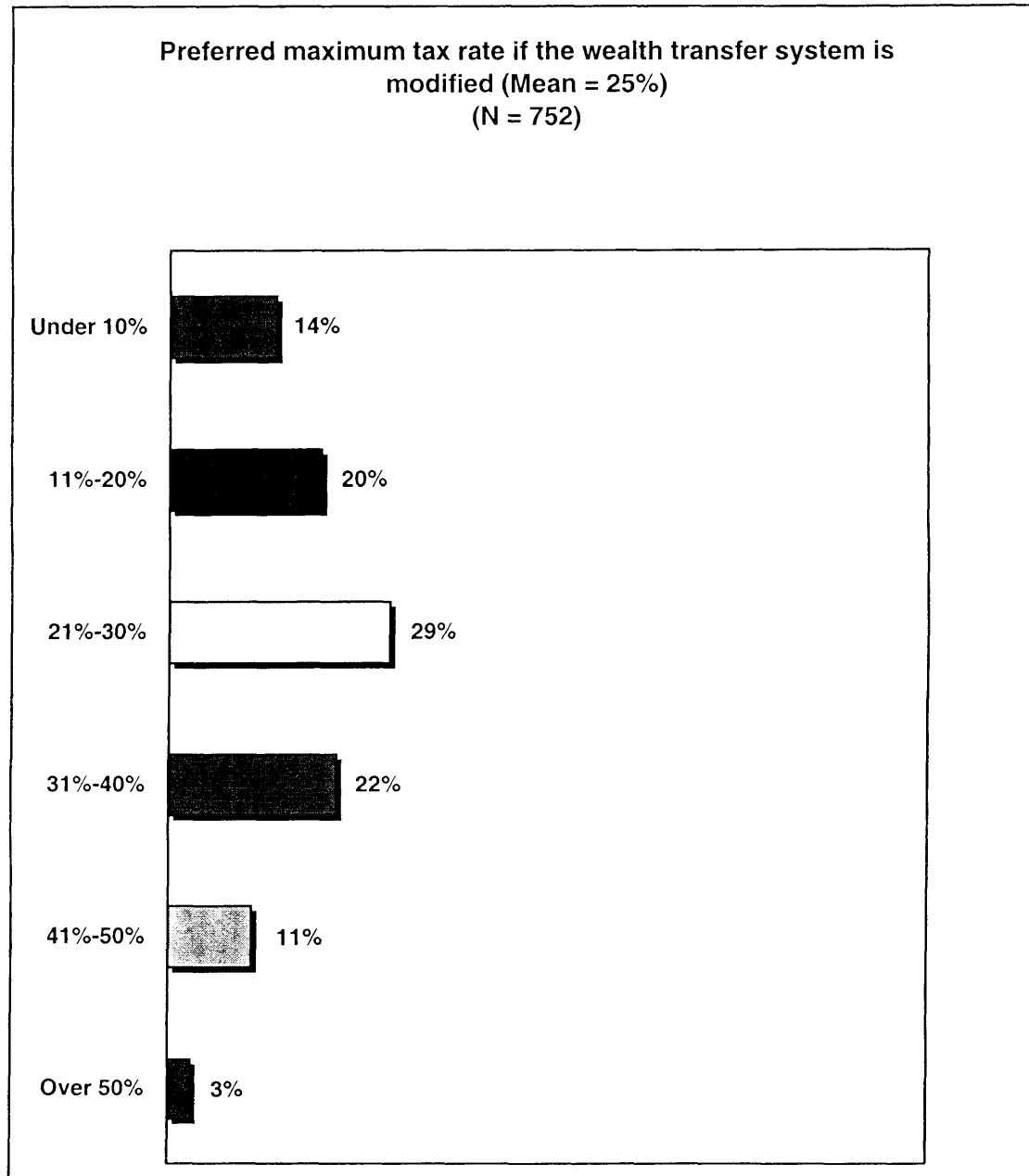
Respondents who thought that the current wealth transfer system should definitely not be retained preferred an applicable exclusion amount exceeding \$20 million.

Preferred applicable exclusion amounts for respondents with different viewpoints as to whether the current wealth transfer system should be retained
(N = 752)



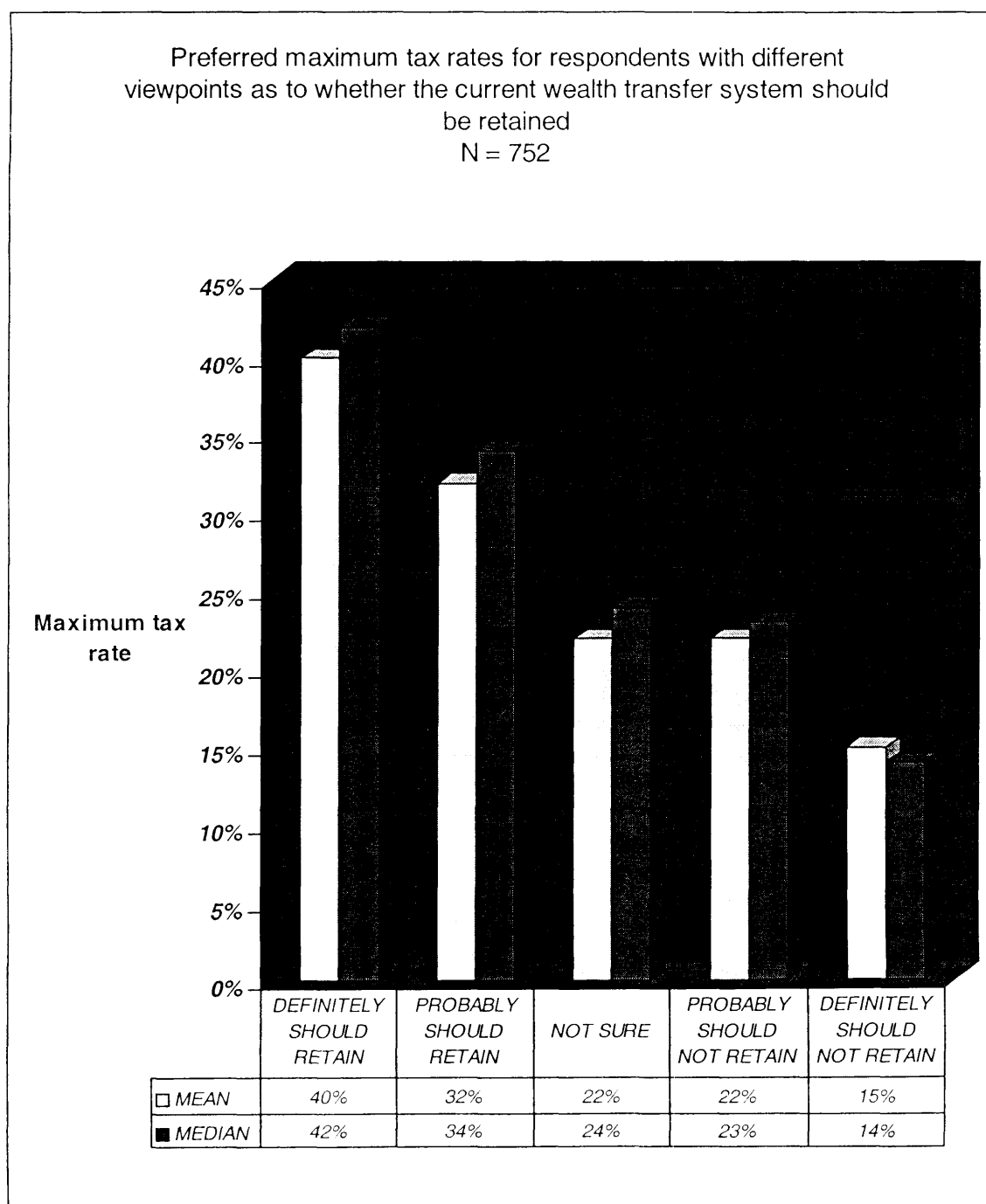
PREFERRED MAXIMUM TAX RATE

If the current system is modified (but not overhauled), surveyed tax practitioners thought the maximum tax rate should be 25 percent (mean and median). Also, 85 percent of respondents thought that the maximum tax rate should be 40 percent or less.



ATTITUDES TOWARD MAXIMUM TAX RATE BY PREFERENCES FOR RETAINING THE CURRENT SYSTEM

As would be expected, respondents who thought that the current transfer tax system should be retained prefer higher maximum tax rates than those who thought that the current system should not be retained.



CARRYOVER BASIS

One of the options considered by Congress would repeal the estate, gift, and GST tax and provide a limited step-up in basis for assets with carryover basis for assets in excess of that amount. Survey respondents were asked whether they thought calculating carryover basis for several categories of assets would cause significant problems for their clients.

A majority of respondents indicated that calculating carryover basis would definitely or probably cause significant problems for their clients for the following assets:

- Collectibles (77 percent),
- Other personal property and household goods (77 percent),
- Mutual funds held by clients (65 percent), and
- Listed securities (58 percent).

Calculating carryover basis for a personal residence or other real estate was viewed to be less problematic, but still was viewed as causing significant problems for clients by 42 percent and 45 percent of respondents, respectively.

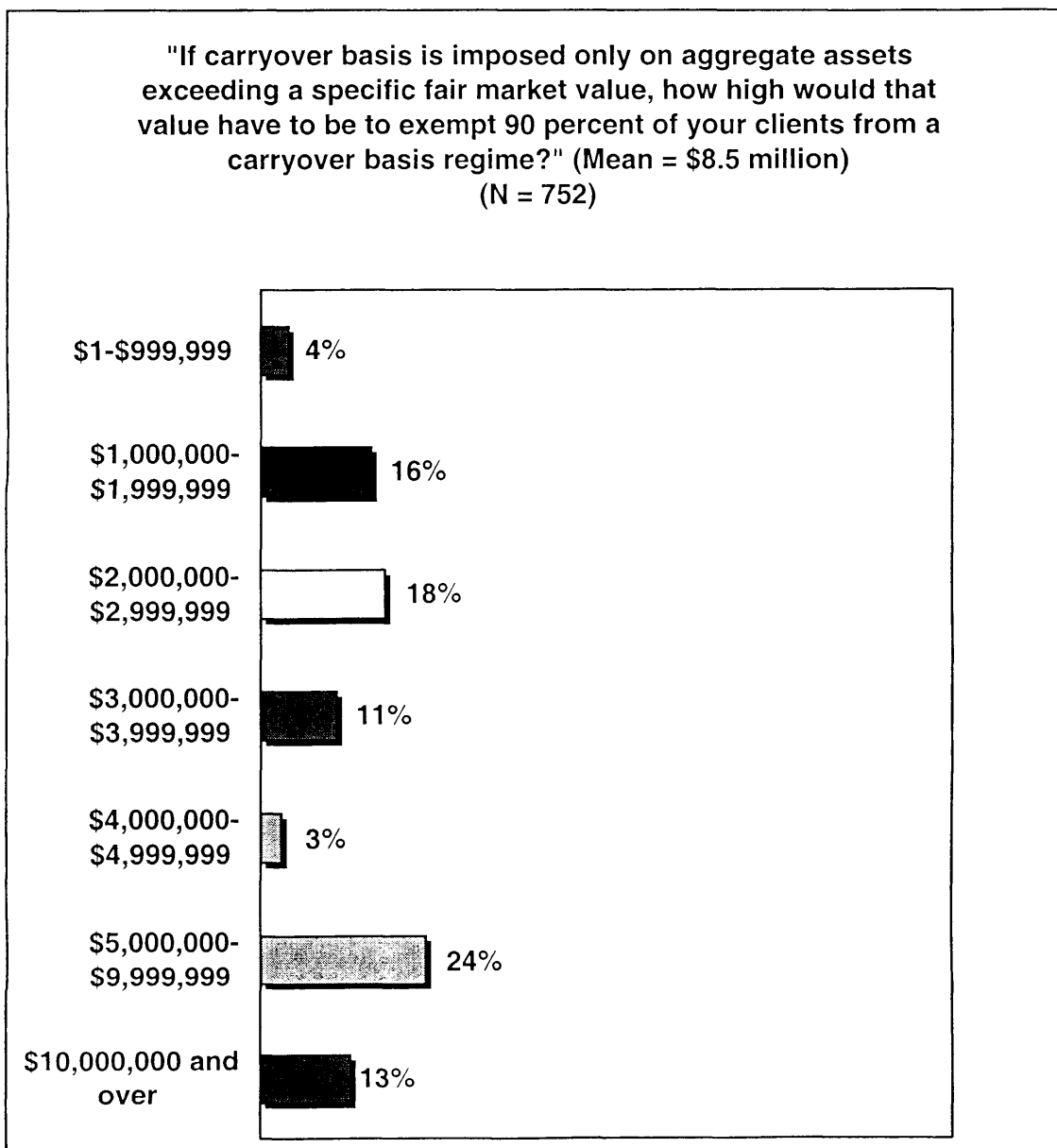
On the other hand, a substantial percent of respondents thought that calculating carryover basis would definitely or probably not cause significant problems for clients with respect to:

- A personal residence (51 percent),
- Other real estate (46 percent),
- Listed securities (39 percent),
- Mutual funds held by clients (31 percent),
- Other personal property and household goods (22 percent), and
- Collectibles (14 percent).

CARRYOVER BASIS

Respondents were asked how high a step-up in basis would need to be in order to exempt 90 percent of their clients from a carryover basis regime.

While there was a great deal of variation in responses, the mean was \$8.5 million and the median was \$3.0 million.



IMPLICATIONS FOR RESTRUCTURING THE ESTATE AND GIFT TAX SYSTEM

Based on the survey results, AICPA Tax Division members see advantages and disadvantages to the current estate and gift tax system. While 49 percent thought that the current wealth transfer tax system should not be retained, 39 percent thought that it should be retained.

Along with providing for a spouse and children and the transfer of a closely-held business to the next generation, liquidity issues relating to closely-held businesses and retirement plans were considered major issues faced by clients by over 60 percent of surveyed AICPA Tax Division members.

If the current system is modified, the preferred alternative is to modify the system by increasing the applicable exclusion amount or by reducing tax rates.

Although surveyed members varied a great deal in their opinions concerning the appropriate applicable exclusion amount, increasing the applicable exclusion amount to a minimum of \$4 million to \$8 million per taxpayer would eliminate estate tax liability concerns for 90 percent of surveyed member's clients.

Most of the members surveyed (85 percent) preferred a maximum tax rate of 40 percent or less.

